

An organization formed and controlled by a doctor of medicine, 'hired' to conduct research programs consisting of examining and treating patients who are charged the prevailing fees for services rendered, is not exempt under section 501(c)(3) of the Code.

Advice has been requested whether an organization formed and operated as described below is exempt from Federal income tax under section 501(c)(3) of the Internal Revenue Code of 1954.

The organization was formed and is controlled by a doctor engaged in the practice of medicine. The doctor transferred assets, including his medical practice, his home, and his automobile to the organization.

The organization 'hired' the doctor to conduct 'research programs' which consist of the doctor examining and treating patients. The organization charges patients the prevailing fees for services rendered. The organization carries on no other substantial activities.

In return for his services the doctor receives a small salary, a paid vacation, a pension plan, free health and life insurance, 'scholarships' for his children, and the use of a personal residence and automobile. The organization's income, after payment of these amounts, is used to expand its facilities.

Section 501(c)(3) of the Code provides for the exemption from Federal income tax of organizations organized and operated exclusively for charitable, scientific, or educational purposes, no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Section 1.501(c)(3)-1(d)(1)(ii) of the Income Tax Regulations provides that an organization is not organized and operated exclusively for any purpose specified in section 501(c)(3) unless it serves a public rather than a private interest.

Under the facts described the operation of the medical practice by the organization does not differ significantly from the private practice of medicine for profit. The organization is operated by its creator essentially as an attempt to reduce his personal Federal income tax liability while still enjoying the benefits of his earnings. Thus, the organization's primary function is to serve the private interest of its creator rather than a public interest.

Accordingly, it is held that the organization does not qualify for exemption from Federal income tax under section 501(c)(3) of the Code.